

SHAREHOLDERS SERVICES ASSOCIATION

**DTCC Update
July 24, 2008**



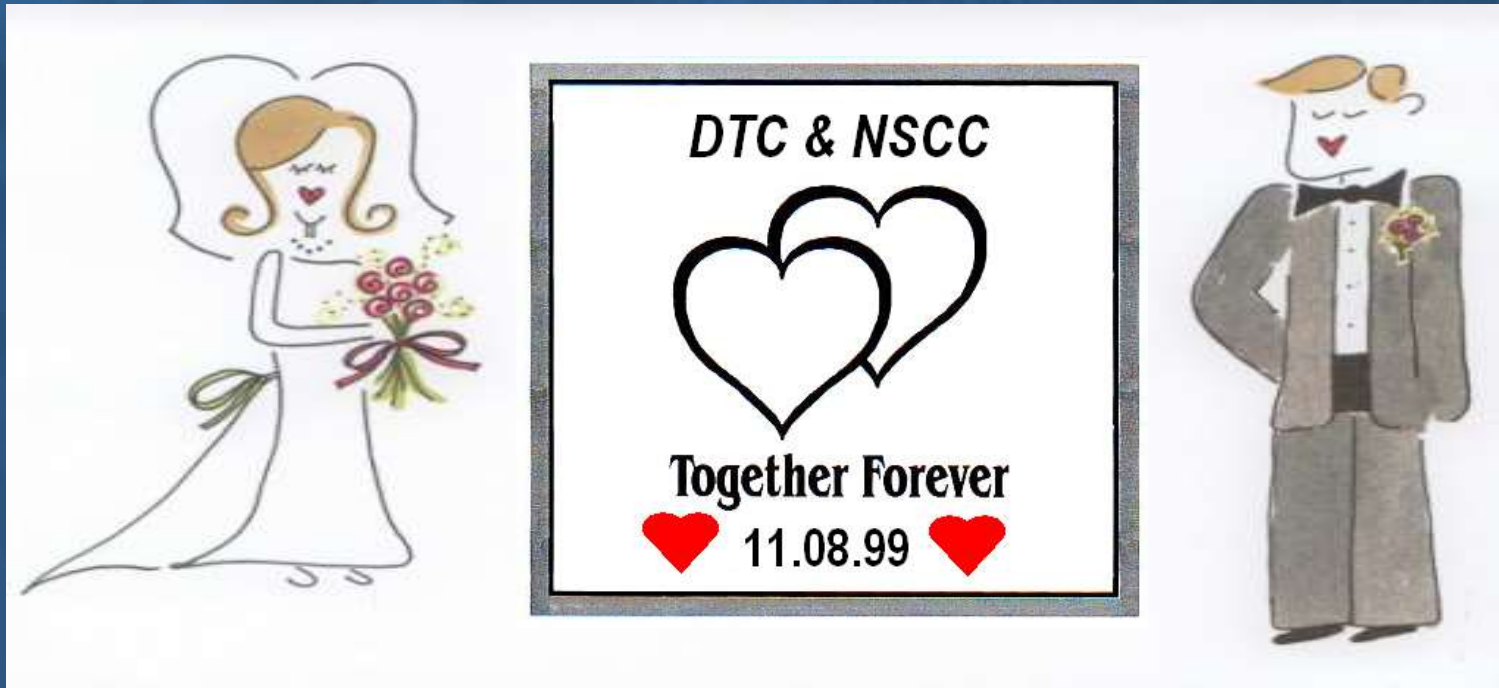
The Depository Trust & Clearing Corporation (DTCC)

“It isn’t your father’s DTC!”

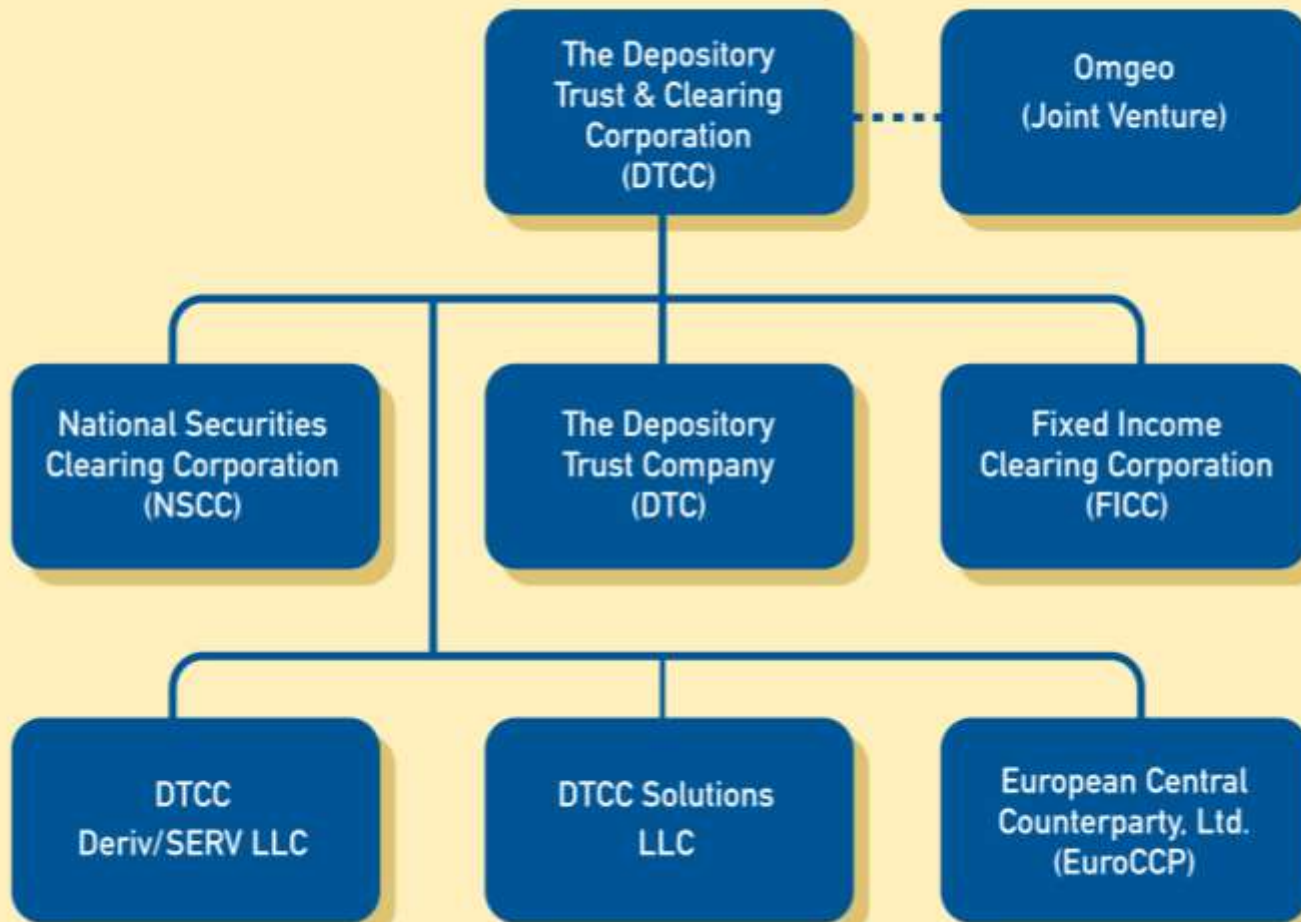


The Depository Trust & Clearing Corporation (DTCC)

Formed by the marriage of *DTC* & *NSCC*



DTCC: Holding Company/Subsidiary Structure



DTCC: Who We Are

A holding company that brings together **six** subsidiaries.

1. The Depository Trust Company (DTC) provides

- Securities custody and safekeeping services.
- Underwriting and asset servicing.
- Settlement for institutional trades, money market instruments and other securities transactions.

2. National Securities Clearing Corporation (NSCC)

- Handles clearing and settlement of trades in equities, corporate and municipal bonds, unit investment trusts, index funds and other securities.
- Is the leading processor of mutual fund and insurance transactions in the U.S.

3. Fixed Income Clearing Corporation (FICC) provides clearing and risk management for trades in:

- U.S. government securities and repurchase agreements.
- Mortgage-backed securities.



DTCC: Who We Are (continued)

4. **Deriv/SERV LLC** represents the global standard for the post-trade processing of over-the-counter (OTC) derivative transactions.
 - 5 **DTCC Solutions LLC** operates the world's most comprehensive global corporate action announcement and managed account service.
 6. **EuroCCP**, a UK “recognized clearing house” won a competitive RFP in 2007 to provide clearing and settlement services for *Turquoise*, a new pan-European multilateral trading facility (MTF) owned by a consortium of nine leading investment banks. In 2008, EuroCCP was also selected as a CCP for the NYSE-Euronext's *Smartpool*, and is now in discussions to extend EuroCCP's clearing support to other trading platforms as well.
- In addition, **Omgeo**, DTCC's joint venture with Thomson Financial, is a global business that focuses on the post-trade needs of institutional investors.



DTCC: Who Our Customers Are

- The range of DTCC's customer base includes:
 - broker/dealers
 - banks
 - institutional investors
 - trust companies
 - fund companies
 - insurance carriers
 - investment managers
 - transfer agents

In the U.S., DTCC also supports

- The NYSE Euronext
- The Nasdaq Stock Market
- The American Stock Exchange
- Regional U.S. exchanges
- Electronic trading and communications platforms



NSCC/FICC



National Securities Clearing Corporation (NSCC)

Clearing and Settlement: Equities, Corporate and Municipal Bonds, Unit Investment Trusts

- DTCC processes all broker-to-broker equity, corporate and municipal bond trades in U.S. markets.
- Provides clearance, settlement and post-trade information services to more than 2,500 brokers, dealers, banks, mutual funds, insurance carriers and other financial intermediaries.
- **Average daily value** of transactions (both buy and sell sides) processed in 2007: **\$1.1 trillion.**
- Sharply reduces security movements and capital requirements through its Continuous Net Settlement system.

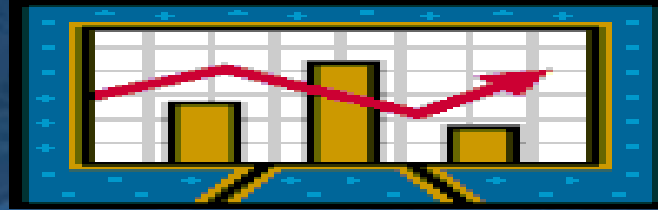


Fixed Income Clearing Corporation (FICC)

- **FICC's Government Securities Division** provides automated comparison and settlement services, risk-management benefits and operational efficiencies to the government securities marketplace.
 - **Annual volume:** In 2007, cleared 30.4 million transactions worth **\$1 quadrillion**.
 - YTD 2008 (as of May month end) FICC has cleared 15.2 million transactions worth \$442.79 billion
 - **Daily volume:** Averaged **\$4 trillion** worth of transactions into net each day
 - YTD 2008 (as of May month end) average is \$4.3 trillion each day
 - **Repurchase agreement (repo) volume:** Total value of general collateral finance repo agreements in net in 2007: **\$93.6 trillion**
 - YTD 2008 – \$94.2 trillion (already exceeding last year)



NSCC and FICC: CCPs for Different Markets



NSCC (equities, corporate and municipal bonds)

- NYSE Euronext
- NASDAQ
- Regional Exchanges
- OTC Corporate Securities Markets
- Electronic Trading Platforms
- Special Services for Exchange Traded Funds

Settlement via DTC

FICC (US government and, agency mortgage-backed securities)

- US Treasury Bills, Bonds, Notes, Strips, Repos

•Now developing a CCP for Mortgage-Backed Securities Market

Settlement via Federal Reserve



NSCC – Netting 2007

***Total YTD Obligations
Requiring Financial Settlement***

\$283.2 trillion

Reduced by
98%

Net: \$5.2 trillion



DTC



DTC - The Depository

- DTC is the U.S. **securities depository**, providing custody and asset servicing for 3.5 million securities issues, valued at \$40 trillion

Main Activities:

- **Immobilizes securities** held in custody
 - DTC's single nominee name – Cede & Co.
 - Held in a fungible mass – customer-level records not maintained.
- **Settlement**
 - DTC transfers the ownership of securities between broker-dealers and banks by completing their instructions to deliver securities (free and versus payment) by book-entry.
- **Asset Servicing**
 - DTC provides services for securities from origination to redemption or retirement



DTC's Eligible Securities Types

- **Common and Preferred Stock**
- **Unit Investment Trusts**
- **Closed End Funds**
- **Exchange Traded Funds**
- **Corporate Bonds and Medium Term Notes**
- **Municipal Bonds/Notes**
- **Corporate and Municipal Commercial Paper**
- **Structured Securities (including CMOs and ABS)**
- **Retail and Institutional CDs**
- **Bankers Acceptances**



Asset Servicing at DTC

Through its depository, DTCC provides services for securities, from origination to redemption or retirement, including:

- **Underwriting:** 54,266 underwriting events in 2007, worth \$4.26 trillion
- **Securities Processing:** safekeeping, deposit and withdrawal services and interface to Direct Registration System
- **Custody:** electronic and vault storage and accounting for securities: 2,406,000 issues in 2007.
- **Cash dividend and interest payments:** \$1.92 trillion in 2007
- **Corporate reorganizations:** stock splits, redemptions, retirements, etc.)
- **Tax reporting and cost-basis reporting** via AccuBasis



DTC's Custody and Safekeeping: Key Concepts



- **Immobilization** (35+ years of requiring securities to be centralized at a regulated depository for all NSCC and DTC settlements)
- **Dematerialization** (moving rapidly toward ultimate goal of eliminating all Physical Certificates)
- **Cede & Co.** All securities held on DTC accounts are registered in DTC's nominee, Cede & Co., so that all shares are fungible and only need registration if they are moved into Direct Registration or otherwise withdrawn from DTC safekeeping.



DTC's Custody and Safekeeping Methods

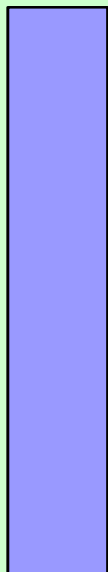
- **FAST – Fast Automated Securities Transfer Program**
- **DRS – Direct Registration Service**
- **Eligible Non-US Issues held at other CSDs (CDS, Clearstream Frankfurt, SegalInterSettle and soon, Euroclear Bank)**
- **Traditional Vault Services - Safekeeping, Deposits, Withdrawals**
- **Non CEDE Custody separate from the Depository**



DTCC Certificate Reduction Progress

DTC Vault Certificate Inventory

30+ Million



1990

2000

2002

2004

2006

2007

8 Million

5.5 Million

3.9 Million

3 Million

2.4 Million



Dematerialization: Why not Equities????

- **Mutual Funds** 1970s
- **US Agency & Treasuries** 1980s
- **Municipal Bonds** 1980s
- **Options & Futures** 1990s
- **FNMA, GNMA** This decade
- **Equities** Last hold out



Direct Registration System (DRS)

- **Third form of securities ownership:**
 - **Street name**
 - **Certificate form**
 - **Directly registered of the books of the issuer**
- **Issue can be eligible as**
 - **Certificate or Statement**
 - **Statement Only**
 - **Eligible but Not Participating**
- **Statement evidencing ownership – no certificate**
- **Transfer quickly and efficiently**
- **Less cost and risk**



Recent DRS Updates

- **Exchange listing requirement:**
 - Since January 2007, all newly listed issues coming to market must be DRS eligible
 - Since March 2008, all existing listed issues must be DRS eligible
- **All 50 states' rules allow statement ownership**
- **DTC to default all DRS eligible transfers to statement in 4th Qtr**
- **Move All Shares and second SSI/TIN**



DRS Benefits

- **No need for investor to secure expensive certificates**
- **Dramatically reduces the cost of corporate actions**
- **Reduces delays to market**
- **Standardization: other assets are book entry already.**
- **Receive advises and statements, often available on line**
- **All the benefits of certificates without the costs**



DRS Move All Shares

- **Broker submits “A”, “T”, or “P” transaction instead of a specific quantity**
- **A one byte field change on files and PTS/PBS**
- **Transfer agent moves all whole shares**
- **Reduces rejects due to quantity differences between the broker’s request and the true share**
- **Initiative includes second SSN/TIN number for joint registrations**
- **Reduces 2nd largest cause of Profile Modification rejects**
- **Implementation date: November 3, 2008**



DRS: Current Status

- **Eligible Issues:** 7,520
 - **Certificate or Statement -** 5,576
 - **Statement Only -** 380
 - **Eligible/Not Participating -** 1,564
- **New Issues added**
 - **April:** 111
 - **May:** 35
 - **June:** 31 Its Growing!!!
- **2008 Monthly Transactions average:** 54,500
- **2008 Monthly DOs average:** 49,500
- **41% of DRS eligible WT requests are for statements**
- **89% of all WT requests are for DRS eligible issues**



Dematerialization – The Next Steps

- **Continued destruction of non-transferable securities certificates**
- **Default to Statement - Participants**
 - For WT requests in DRS eligible issues
 - Pershing, Citigroup, National Financial, Merrill, etc have done it
 - Very little pushback from their customers
 - Working with SIFMA to increase voluntary defaults
- **Default to Statement – DTCC**
 - 1/1/09 default for all WT requests in DRS eligible issues
 - Certificates available only from the transfer agent



Dematerialization – The Next Steps

- **Eliminate certificate option**
 - For DRS eligible but not participating issues
 - Participants can use DWAC or Rush WT
 - Proposed start date: July 1, 2009
- **Elimination of WT support services such as DMD**
- **Less WT certificates = less deposits**
- **Continued disincentive pricing for physical certificate services. Pay the true costs**



Any Questions?

